**Internal growth:** occurs when a business grows organically using its own capabilities and resources to increase the scale of its operations and sales revenues. Businesses can use \* reduction in price, \* more promotion of products, \*new innovative products, \*wider distribution channels, \*increased credit risk, and training and developing their team.

Advantages are \*better control and coordination within the organization, \*inexpensive, \*maintains corporate culture, \* less risky.

Disadvantages are \*diseconomies of scale as the business grows, \*need to restructure, \*dilution of control and ownership, \*slower growth

**External Growth:** occurs through dealings with outside organizations. Such growth usually comes from alliances or mergers with other firms or through the acquisition of other businesses.

Advantages: \*It is a very quick way to grow. \*It reduces competition. \*It brings about greater market share. \*It creates innovation and new ideas along with helping the firm evolve and spread risks across the market.

Disadvantages: \*It is very costly. \*loss of corporate culture.

**Mergers:** take place when 2 firms agree to form a new company.

Advantages: \*Greater market share, \*economies of scale, \*synergy, \*survival (allows the business to be in a stronger position to compete with rivals), \*diversification (they can diversify their product mix)

Disadvantages: \* Redundancies (job losses are likely to occur), \*Conflict (sometimes during negotiations conflict arises) \*Culture clash \*Loss of control (original owners sometimes loose control), \*diseconomies of scale \*regulatory problems (governments may block mergers because they create a monopoly)

**Acquisitions:** (Can also be called a takeover) occurs when a company buys a controlling interest in another firm.

Advantages: \*Greater market share, \*economies of scale, \*synergy, \*survival (allows the business to be in a stronger position to compete with rivals), \*diversification (they can diversify their product mix)

Disadvantages: \* Redundancies (job losses are likely to occur), \*Conflict (sometimes during negotiations conflict arises) \*Culture clash \*Loss of control (original owners sometimes loose control), \*diseconomies of scale \*regulatory problems (governments may block mergers because they create a monopoly)

**Joint Venture:** this occurs when 2 or more businesses split the costs, risks, control and rewards of a business project. When they do this, they set up a new legal entity. (Sony and Ericsson is a good example)

Advantages: \* higher market share, \* economies of scale, \*synergy, \*spreading of costs and risks, \*entry into foreign markets (sometimes national laws make JVs the only option for businesses that want to enter a foreign market), \*relatively cheap (it is cheaper than taking over another company and easier to exit a JV) \*competitive advantages (they are stronger together) \*exploitation of local knowledge \* high success rate

Disadvantages: \*have to rely heavily on resources and trust the other business, \*dilution of brands, \*culture clashes

**Strategic Alliance:** when 2 or more businesses cooperate in a business venture for mutual benefit. The firms in the strategic alliance share the cost of product development, operations and marketing. They remain independent organizations though.

Advantages: \*synergies from the different strengths of the members of the alliance by putting together the resources (benefits from each other’s expertise and financial support) \*economies of scale, \*wider channels of distribution, \*added value services will engage customers on another level, \*relatively cheap way to grow.

Disadvantages: \* have to rely heavily on resources from each other and trust each other, \* conflicts can occur, \* organizational culture clashes, \*dilution of brand

**Franchising:** a form of business ownership whereby a person or business buys a license to trade using another firm’s name, logos, brands and trademarks. In return for this benefit, the purchaser of the franchise (called the franchisee) pays a license fee to the parent company (franchisor). The franchisee also pays a royalty payment based on sales revenue.

Advantages for the franchisor: \*company experiences rapid growth and the franchisee takes the risk, \*company can grow nationally or internationally without spending a lot of money, \*doesn’t have the operational overheads like training and developing, recruitment, \*better incentives for owners, \*owners understand their markets

Disadvantages: \*it is risky to allow others to use your businesses name because they can damage the reputation of the brand, \*difficult to control day to day operations of the franchisee which could lead to quality control

**Horizontal integration:** is the most common type of M&A, which occurs when there is an amalgamation (combining or uniting) of firms operating in the same industry.

Advantages: \*larger market share, \* economies of scale, \*reduction of production costs, \*synergies

Disadvantages: \*decreased flexibility in decision making \*can cause confusion in corporate culture, \*regulatory problems (governments may block mergers because they create a monopoly)

**Vertical Integration:** takes place between businesses that are at different stages of production.

Advantages: \*increased market share, \*lower the transaction costs between stages of production, \*quality control, \*advantages over competition because your business controls the stages of production

Disadvantages: \*decreased flexibility, regulatory problems (governments may block mergers because they create a monopoly), \*might decrease product variety because they have so much invested in one product

**Backwards Vertical Integration:** a merger or acquisition of businesses towards an earlier stage of production.

Advantages: \* allows manufacturers to secure lower costs of raw materials, \* gives a business more control, \*quality increases, \*positive differentiation (can use their advantages to beat the competition)

Disadvantages: \*decreased flexibility in decision making, \*it is very expensive, \*can cause confusion in corporate culture and with top managers who try to do too much, \*less economies of scale

**Forward Vertical Integration:** is the merger or acquisition of businesses toward the end stage of production (towards the consumer) example: a coffee manufacturer acquires a chain of cafes.

Advantages: \*gives a businesses more control, \* cost control over distribution process, \*competitive advantages, \*quality control

Disadvantages: \*decreased flexibility in decision making, \*it is very expensive, \*can cause confusion in corporate culture and with top managers who try to do too much, \*less economies of scale